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OO RUEHWEB

DE RUEHKT #1298 1431022
ZNR UUUUU ZZH
O 231022Z MAY 06
FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1550
INFO RUEHNE/AMEMBASSY NEW DELHI PRIORITY 9770
RUEHLM/AMEMBASSY COLOMBO PRIORITY 4641
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2625
RUEHLO/AMEMBASSY LONDON PRIORITY 4038
RUEHKA/AMEMBASSY DHAKA PRIORITY 9745
RUEHML/AMEMBASSY MANILA PRIORITY 1688

UNCLAS KATHMANDU 001298

SIPDIS

SENSITIVE

SIPDIS

DEPT FOR SCA/INS
MANILA FOR P SPELTZ

E.O. 12958: N/A
TAGS: [ECON](#) [EAID](#) [EFIN](#) [PGOV](#) [PREL](#) [NP](#)
SUBJ: WHITE PAPER HIGHLIGHTS DISMAL STATE OF NEPAL'S
ECONOMY

REF: KATHMANDU 1283

STATE OF NEPAL'S ECONOMY DISMAL

¶1. (SBU) ON MAY 15 FINANCE MINISTER DR. RAM SHARAN MAHAT PRESENTED A WHITE PAPER (WP) TO THE RE-INSTATED PARLIAMENT DEPICTING A DISMAL PICTURE OF THE CURRENT STATE OF NEPAL'S ECONOMY AND THE GOVERNMENT'S FISCAL CONDITION. THE WP WARNED OF A SERIOUS FISCAL DEFICIT. IN THE WP, MAHAT BLAMED THE ROYAL GOVERNMENT FOR RECKLESS EXPENDITURE OF GOVERNMENT FUNDS. MAHAT HIGHLIGHTED THAT ESCALATED SECURITY EXPENDITURES, HIGH-LEVEL FOREIGN TRIPS AND OTHER ARBITRARY EXPENSES HAD PLACED A BURDEN ON THE ECONOMY, ALREADY BELEAGUERED BY TEN YEARS OF A MAOIST INSURGENCY. MAHAT ACKNOWLEDGED THAT WITH THE EXISTING SOURCES OF REVENUE THE GOVERNMENT COULD NOT MEET REGULAR EXPENDITURES FOR THE CURRENT FISCAL YEAR, WHICH ENDS ON JULY 14, 2006.

GOVERNMENT TAKES ACTION TO EASE FINANCIAL CRISIS...

¶2. (SBU) THE WP ANNOUNCED STEPS THAT THE NEW GOVERNMENT OF NEPAL (GON) HAD TAKEN TO EASE THE FINANCIAL CRISIS. THE WP CALLED FOR BETTER GOVERNMENT EXPENDITURE MANAGEMENT, STOPPED THE CREATION OF NEW GOVERNMENT JOBS, AND IMPOSED A BAN ON UNNECESSARY FOREIGN VISITS. THE WP STATED THAT THE GON WOULD NOT PURCHASE WEAPONS OR NEW VEHICLES. IN AN EFFORT TO BOOST TOURISM, THE WP URGED FRIENDLY COUNTRIES TO REVOKE NEGATIVE TRAVEL ADVISORIES AND ENCOURAGE THEIR NATIONALS TO VISIT NEPAL.

...APPEALS TO DONORS

¶3. (U) MAHAT ALSO APPEALED TO DONORS AND DEVELOPMENT PARTNERS TO QUICKLY RESUME ALL STALLED AID, PROVIDE BUDGETARY SUPPORT TO RESOLVE THE IMMEDIATE FINANCIAL CRISIS, AND OFFER LIBERAL SUPPORT TO HELP THE GOVERNMENT IN ITS QUEST FOR ECONOMIC REVIVAL TO ENHANCE THE PROSPECTS FOR AN ENDURING POLITICAL RESOLUTION AND PEACE (REFTEL). THE FINANCE MINISTER STRESSED THAT FOREIGN DONATIONS WERE THE ONLY OPTION TO SUSTAIN THE ECONOMY. EARLIER IN MAY, RAMESHWOR KHANAL, JOINT SECRETARY, FOREIGN AID COORDINATION DIVISION OF FINANCE MINISTRY, HAD SAID THAT NEPAL WAS SEEKING A TOTAL OF USD 1.2 BILLION FOR RECONSTRUCTION AND REHABILITATION.

COMMENT

14. (SBU) THE NEW GON FACES A TOUGH CHALLENGE TO PUT THE ECONOMY BACK ON TRACK. IN ORDER TO DO SO, THE GON WILL HAVE TO GAIN DONOR CONFIDENCE FOR ECONOMIC DEVELOPMENT PROGRAMS AND PROVIDE AN IMPROVED ECONOMIC CLIMATE.

MORIARTY